



KEEPRITE PRODUCTS LIMITED **1976** ANNUAL REPORT

DIRECTORS

J. GORDON McMILLEN
Brantford, Ontario

JOHN J. BLACK
Brantford, Ontario

J. THOMAS McMILLEN
Brantford, Ontario

F. STEWART BROWN
Brantford, Ontario

JOHN G. EDISON, Q.C.
Toronto, Ontario

JOHN O. TREPANIER, Q.C.
Brantford, Ontario

IRVIN M. 'BODINE
Brantford, Ontario

ROSS M. HANBURY
Toronto, Ontario

OFFICERS

J. GORDON McMILLEN
Chairman of the Board and
Chief Executive Officer

IRVIN M. BODINE
Executive Vice President
Commercial Development

F. STEWART BROWN
President and
Chief Operating Officer

JOHN J. BLACK
Vice President and
Secretary-Treasurer

REGISTRAR AND TRANSFER AGENTS

THE CANADA TRUST COMPANY
Montreal, Toronto, Winnipeg, Calgary,
Regina and Vancouver

SHARES LISTED

MONTREAL STOCK EXCHANGE
TORONTO STOCK EXCHANGE

AUDITORS

MILLARD, ROUSE AND ROSEBRUGH
Chartered Accountants
Brantford, Ontario

BANKER

CANADIAN IMPERIAL BANK OF
COMMERCE

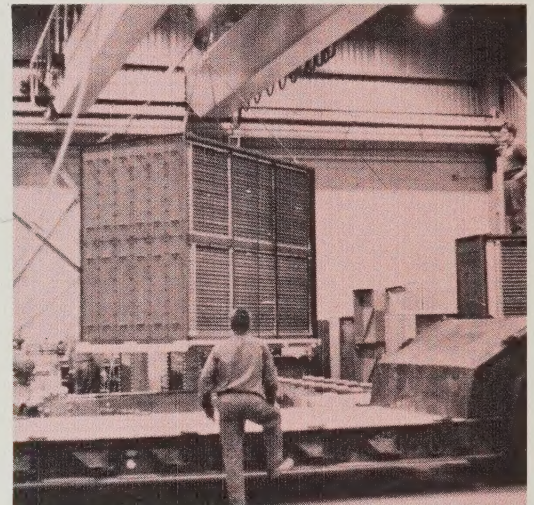
COMPANY PLANTS AND OFFICES

HEAD OFFICE
44 Elgin Street, Brantford, Ontario

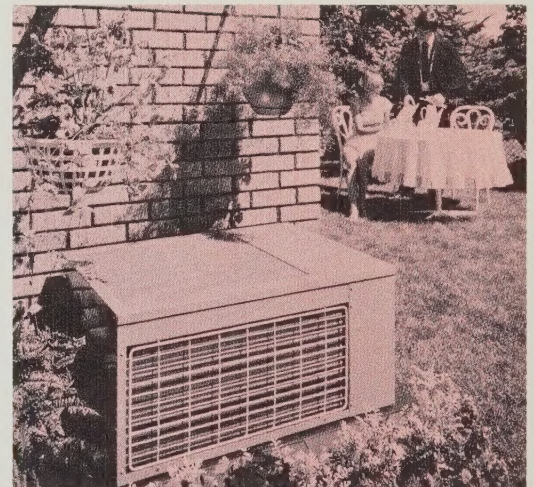
PLANTS
44 Elgin Street, Brantford, Ontario
1030 Clarke Sideroad, London, Ontario

SALES OFFICES
Halifax, Montreal, Ottawa, Toronto,
Hamilton, London, Winnipeg, Calgary,
Edmonton, Vancouver

REPRESENTATIVES
Farmington, Conn., U.S.A.
Atlanta, Ga., U.S.A.
Stafford, U.K.



Industrial heat exchangers of any size are the specialties of our Unifin Division. Seen above is an 8 ft. x 14 ft. multi-row steam air preheater being loaded in our London Plant for shipment to a large boiler installation in the U.S.A.



This central home air conditioner is manufactured by our Brantford Division. It uses the existing ductwork in the house to circulate cool, dehumidified air in summer. We call it the "Climatizer" and many thousands have been installed in Canada over the last few years.



FINANCIAL HIGHLIGHTS

	Year ended December 31	
	1976	1975
SALES	\$51,475,525	\$41,551,067
Net Earnings	\$ 3,573,943	\$ 2,976,201
Per share	\$ 1.775	\$ 1.509
Cash dividends paid	\$ 807,786	\$ 733,780
Number of Shareholders ..*	1,069	1,181
Number of shares outstanding ..*	2,015,731	2,012,231
Number of people employed ..*	771	578
Salaries, wages & employee benefits paid for our people	\$11,619,081	\$ 9,054,310
Value of assets employed	\$30,652,996	\$23,634,292
Working Capital	\$11,052,660	\$ 9,491,152
Long-term Debt	\$ 1,250,000	\$ 1,500,000
Net Worth ..*	\$13,802,999	\$11,069,797

* At year end

REPORT OF THE BOARD OF DIRECTORS

TO OUR SHAREHOLDERS:

1976 was a year of growth and progress. In a difficult economic environment, the Company was able to expand its sales in all markets at a profitable level.

Sales and Earnings

Sales for 1976 were \$51,475,525, an increase of 23.9% over 1975. Net earnings of \$3,573,943 represent an increase of 20.1% from 1975. This is equivalent to \$1.78 per Class B and/or Class C share compared to \$1.51 last year.

The sales improvement was fairly evenly distributed over all segments of the Company. Export markets which experienced significant declines in 1975 returned to normal. The cost of raw materials and purchased parts continued to escalate throughout the year, but at a more modest and orderly rate. The continuing upward trend of wages, salaries, and fringe benefits continues to cause concern about our competitive position in the future.

Financial Position

As a result of the greater level of shipments, working capital requirements increased significantly, inventories by \$2,847,601 and accounts receivable by \$3,212,637. These working capital requirements resulted in an increase in short term borrowing to \$7,436,000 and the working capital ratio decreased slightly to 1.7. Cash flow was \$4,386,250 in 1976,

REPORT OF THE BOARD OF DIRECTORS — continued

73.8% of which was re-invested in the business. Capital expenditures for fixed assets and tooling were \$1,676,461 in 1976, which included \$1,103,743 for the 70,000 square foot addition to the Brantford plant.

Shareholders' equity or net worth of your Company increased by \$2,733,202 (24.7%) over 1975 after paying dividends of \$807,786 (the maximum allowed under A.I.B. regulations) and retiring \$250,000 of the long term debt.

General Comment

The economies of most countries we serve experienced noticeable recoveries from the recession of 1975. Shipments of room air conditioners to the Middle East and Africa improved. The embargo imposed on the importation of room air conditioners by the Australian Government was lifted in 1976 and our shipments to that market returned to normal. Although there was some economic recovery in the United States, sales of room air conditioners improved only marginally and total industry sales are still well below the levels reached in 1973 and 1974.

Our Canadian sales of room and central air conditioners, commercial and industrial refrigeration and air conditioning equipment continued to grow as the market in Canada for all these products strengthened and your Company continued to obtain an increasing percentage of this market. Shipments of industrial heat exchange equipment by our Unifin Division increased in all its markets.

An expansion of the manufacturing plant and addition of equipment was completed at our Unifin Division at London, Ontario late in 1975. It was gradually brought into full production in 1976 alleviating the capacity limitation in that location and contributing materially to Company results in 1976.

The need for expanded manufacturing capacity to meet the indicated demands of our customers for room air conditioners and other products for the 1977-78 season became evident early in 1976. Accordingly, in August, we initiated a program to construct a 70,000 square foot expansion of our Brantford manufacturing plant. The project included provision for a new conveyORIZED room air conditioner assembly line with associated marshalling and warehouse areas and a second automated powder paint finishing facility. The program was completed on schedule and production commenced on January 24th. This facility provides for future increases in capacity, at least through 1977 and 1978.



J. Gordon McMillen, Chairman



F. Stewart Brown, President



REPORT OF THE BOARD OF DIRECTORS — continued

In line with the growth of our Company in 1976, steps were taken to provide a broader and stronger management structure. In support of this plan, we appointed corporate managers of Industrial Relations, and of Finance. In 1977, we shall add a Corporate Manager of Development and Planning. The result of these moves is that the affairs of the Company as a whole will be managed by a small corporate management group and operations will be organized in profit-centered divisions.

We approach 1977 with cautious optimism and anticipate a year of modest growth. We have the plans, facilities, and the organization to benefit from any economic growth. On the other hand, we recognize the volatility of the world scene and are prepared to take contingency action if necessary.

We continue to have grave concern about the economic environment in Canada. In our report a year ago, we commented on the excessive expectations of Canadian people and their governments for higher wages, greater benefits, more leisure and more welfare programs. Unfortunately, there has been no indication of improvement. As relative productivity in Canada continues to drop behind that of other major developed nations, particularly our neighbour to the south, the future outlook for Canadian secondary manufacturing industry becomes more uncertain.

Following the close of the 1976 fiscal year, KeepRite acquired for cash all the shares of The Cardinal Development Corporation of Salem, Ohio, for an amount in excess of \$300,000. Cardinal is a small, but profitable, manufacturing company producing oil-immersed pumps for the electrical industry in North America. It is one of the leading producers of this specialty product. Its products are compatible with those of our Unifin Division in both technology and marketing. We believe that, with the support of KeepRite, Cardinal Development can be expanded in terms of product lines and world markets. It also provides a base of operation in the United States from which your Company can develop and expand its interests in the American market.

The good results which we achieved in 1976 are a tribute to the dedicated and loyal efforts of the nearly 800 people on the KeepRite "Team". We express our gratitude to our many customers, our suppliers, our bankers, and our shareholders, without whose combined support your Company could not exist. We hope to continue to merit their confidence.

At KeepRite, we continue to plan for the future, to build on the successes of the past, and to respond effectively to the changing forces in our environment. To protect our investment in facilities and people, and to take advantage of our opportunities will continue to be our guiding principles.

On behalf of the Board of Directors.

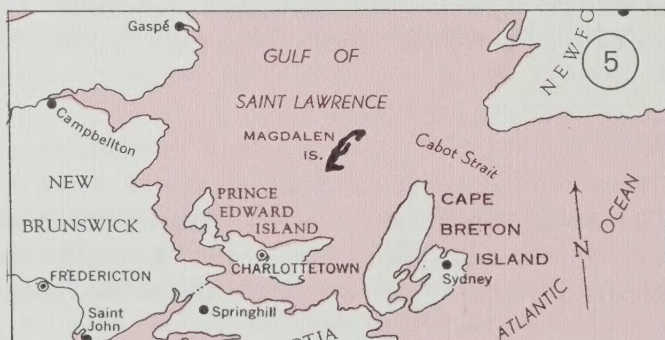
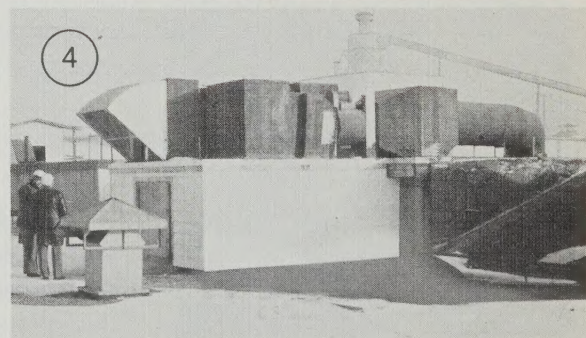
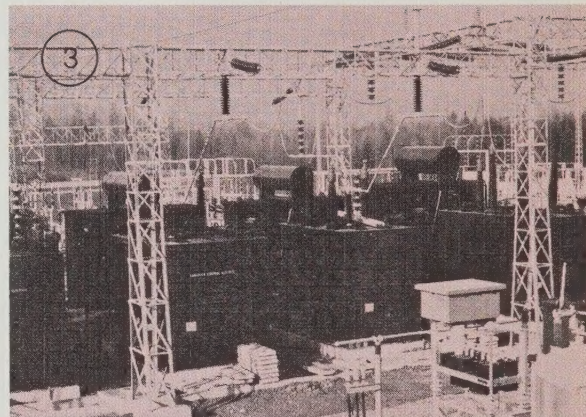
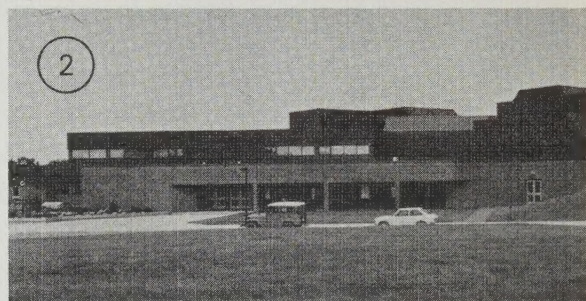
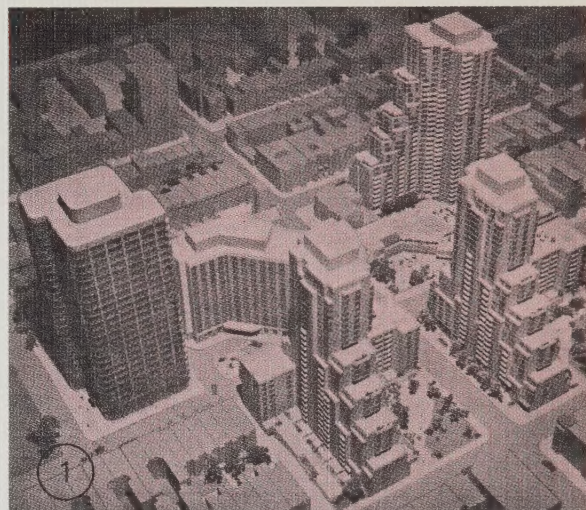
J. GORDON McMILLEN
Chairman of the Board and
Chief Executive Officer

F. STEWART BROWN
President and
Chief Operating Officer

March 29, 1977.

SOME IMPORTANT ACHIEVEMENTS OF 1976

- 1 LACITÉ COMPLEX near downtown Montreal is a \$102 million multi-purpose development. It includes a 26 storey office tower, a 500 room hotel and three apartment buildings. Hotel LaCité and the office tower were completed as Phase I of this complex. Throughout this whole project, KeepRite Seasonall packaged heating and air conditioning units will be used.
- 2 CARINE WILSON, a modern high school in Ottawa, is equipped with eight Q-pipe heat recovery coils. These were supplied by KeepRite to reduce heat loss in their heating, ventilating and air conditioning systems. Energy conservation, through recovery of heat normally lost to atmosphere, is a significant part of our business.
- 3 VALVE HALL COOLERS — A high voltage D.C. transmission system designed by Canadian General Electric carries power from mainland B.C. to Vancouver Island via underwater cables. Unifin heat exchangers are used to cool the valves which convert current from A.C. to D.C. This unique project was undertaken by B.C. Hydro.
- 4 ENERGY CONSERVATION is achieved by heating fresh supply air from 0° F to 100° F at Building Products (Canada) Ltd.'s kraft paper mills in Winnipeg. KeepRite supplied Q-pipe coils to recover and utilize heat which would otherwise be exhausted and lost to atmosphere. Building Products (Canada) Ltd. is one of Canada's leading manufacturers of paper-based products used in the building industry.
- 5 MAGDALEN ISLANDS, situated in the Gulf of St. Lawrence, are exposed to the extremes of Canadian weather all year round. The new diesel electric power plant housing two giant diesel generators provide 12 megawatts of electricity for the islands. The diesel generators were installed by Peacock Bros. and glycol coolers for the diesels were supplied by our Unifin Division.





STATEMENT OF INCOME

	Year ended December 31st	
	1976	1975
SALES	\$51,475,525	\$41,551,067
Cost of sales, selling, administrative and other expenses, exclusive of the items listed below	44,468,527	35,476,582
Depreciation	623,513	690,764
Interest on long term debt	188,683	202,255
	<u>45,280,723</u>	<u>36,369,601</u>
Net income for the year before taxes on income	6,194,802	5,181,466
Taxes on income	2,620,859	2,205,265
NET INCOME FOR THE YEAR	<u>\$ 3,573,943</u>	<u>\$ 2,976,201</u>
Basic earnings per share — Class B and/or Class C*	\$ 1.775	\$ 1.509

* Based on the weighted average of shares outstanding during the year

STATEMENT OF RETAINED EARNINGS

	Year ended December 31st	
	1976	1975
Balance — beginning of year	\$10,787,677	\$ 8,502,135
Add: Net income for the year	3,573,943	2,976,201
Appropriation to reserve for anticipated decline in inventory values in 1974 reversed in 1975	—	100,000
	<u>3,573,943</u>	<u>3,076,201</u>
	14,361,620	11,578,336
Deduct:		
— Income tax paid on portion of 1971 undistributed income on hand to create tax paid surplus of \$349,775.	61,725	56,879
— Dividends declared		
• on Class C shares (from tax-paid surplus) (1976 — 36.7c per share; 1975 — 34.0c)	349,839	322,470
• on Class B shares (1976 — 43.2c per share; 1975 — 40.0c)	457,947	411,310
• on Common shares	—	—
Total Dividends	<u>807,786</u>	<u>733,780</u>
Balance — end of year	<u>\$13,492,109</u>	<u>\$10,787,677</u>

* 1976 balance includes \$373 tax-paid surplus (1975 — \$437.)

BALANCE SHEET AS AT DECEMBER 31st, 1976

(with comparative figures for 1975)

ASSETS

	1976	1975
CURRENT ASSETS:		
Cash on hand and in bank	\$ 384,061	\$ 516,122
Accounts receivable after allowance for doubtful accounts	13,363,804	10,151,167
Inventories valued at lower of cost and net realizable value	12,302,164	9,454,563
Prepaid expenses	127,444	37,116
Total Current Assets	<u>26,177,473</u>	<u>20,158,968</u>
FIXED ASSETS:		
Land, buildings and equipment — at cost	7,682,681	6,222,929
Less: Accumulated depreciation	3,492,793	3,014,186
	<u>4,189,888</u>	<u>3,208,743</u>
OTHER:		
Advances to trustee under employee share purchase plan (Note 3b)	284,935	266,581
Signed on behalf of the Board:		
J. GORDON McMILLEN, Director		
F. STEWART BROWN, Director		
	<u>\$30,652,296</u>	<u>\$23,634,292</u>

AUDITOR'S REPORT

To the Shareholders,
KeepRite Products Limited:

We have examined the balance sheet of KeepRite Products Limited as at December 31, 1976 and the statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Brantford, Ontario
March 7, 1977

MILLARD, ROUSE AND ROSEBRUGH
Chartered Accountants



BALANCE SHEET AS AT DECEMBER 31st, 1976

(with comparative figures for 1975)

LIABILITIES

	1976	1975
CURRENT LIABILITIES:		
Bank loan (secured)	\$ 7,436,000	\$ 5,758,000
Accounts payable and accrued liabilities	6,172,646	3,567,069
Salaries, wages and commissions payable and payroll deductions to be remitted from employees' compensation	783,517	592,997
Income taxes payable	482,650	499,750
Current maturity on long term debt (Note 2)	250,000	250,000
Total Current Liabilities	<u>15,124,813</u>	<u>10,667,816</u>
DEFERRED INCOME TAXES (Note 1)	474,484	396,679
LONG TERM DEBT:		
Debenture secured loan (Note 2)	1,250,000	1,500,000

SHAREHOLDERS' EQUITY

CAPITAL: (Note 3)		
Class B participating shares without par value		
Authorized: 2,500,000 shares		
Issued: 1,069,013 shares (at December 31, 1976)	164,876	145,774
Class C participating shares without par value		
Authorized: 2,500,000 shares		
Issued: 946,718 shares (at December 31, 1976)	146,014	136,346
Common shares without par value		
Authorized: 1,000 shares		
Issued: Nil	—	—
	<u>310,890</u>	<u>282,120</u>
RETAINED EARNINGS	13,492,109	10,787,677
	<u>13,802,999</u>	<u>11,069,797</u>
	<u>\$30,652,296</u>	<u>\$23,634,292</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ACCOUNTING POLICIES

- (1) Inventories are valued at the lower of cost and net realizable value with cost being determined substantially on a first in, first out basis.
- (b) Fixed assets are stated at acquisition costs less federal investment incentive tax credit. Depreciation is provided on a declining balance basis, generally using rates of 5% for buildings and 20% for machinery and other equipment. Expenditure for dies, moulds and other toolage is depreciated 100% in the year of acquisition and the value is not included in asset values.
- (c) All research and development costs, including costs of developing new products, changing existing products and pre-production costs, are expensed when incurred.
- (d) Deferred income taxes represent the accumulated amounts of tax deferred in current and prior years through claiming for tax purposes capital cost allowance in excess of depreciation recorded in the amounts.

NOTE 2: LONG TERM DEBT

The company entered into an agreement dated July 18, 1972 with a Canadian bank for a long term loan in the amount of \$2,500,000 bearing interest at the bank's minimum commercial lending rate, plus 1-1/4% per annum, amended to 1% in 1974 (December 31, 1976 — 10-1/4% and December 31, 1975 — 10-3/4%). This loan is secured by a first mortgage on the fixed assets and a first floating charge on all other property and assets of the company and is repayable in equal annual instalments of \$250,000 on September 30 in each year until September 30, 1979, on which date the balance outstanding is payable in full.

NOTE 3: CAPITAL

- (a) The Class B shares and Class C shares are fully inter-convertible at the option of the holder at any time. The shares outstanding at the respective year ends are summarized in the table below:

	As at December 31, 1976		As at December 31, 1975	
	Shares	Amount	Shares	Amount
Class B shares	1,069,013	\$164,876	1,039,740	\$145,774
Class C shares	946,718	146,014	972,491	136,346
Common shares	Nil	Nil	Nil	Nil
	<u>2,015,731</u>	<u>\$310,890</u>	<u>2,012,231</u>	<u>\$282,120</u>

- (b) In 1975 the company established a share purchase plan for senior employees of the company as authorized by the shareholders' approval of special by-law No. 6 at the Annual and General Meeting on May 22, 1975. Under the plan, the company may advance up to \$500,000 to a trust created for such employees to finance the purchase by the trustee of either Class B or Class C shares from the treasury of the company to a maximum of 4% of the outstanding shares of the company. The price at which such shares may be purchased is to be set by the Board of Directors with reference to current market prices. Funds advanced to the trustee bear interest at 6% and are repayable within five years. The trustee holds the shares as collateral security for the advances made by the company.

Shares are released to the employees as the related advances are repaid. The employees are individually liable for the amounts advanced to the trustee on their behalf; the obligation of the trustee to repay the advances is limited to amounts received from employees and proceeds realized on any sale of shares held as collateral.



STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31st	
	1976	1975
SOURCE OF FUNDS:		
Net income from operations	\$ 3,573,943	\$ 2,976,201
Depreciation charged to operations	623,513	690,764
Increase in deferred income taxes	77,805	79,654
Total funds provided from operations	4,275,261	3,746,619
Issue of shares under employee stock purchase plan	28,770	266,581
Repayment on loan under employee stock purchase plan	10,415	—
Federal investment incentive tax credit on eligible assets acquired	71,804	38,755
	<u>4,386,250</u>	<u>4,051,955</u>
USE OF FUNDS:		
Income tax paid on portion of 1971 undistributed income on hand	61,725	56,879
Dividends declared and paid	807,786	733,780
Fixed assets purchased	1,676,461	1,309,892
Advance made to trustee under employee share purchase plan	28,770	266,581
Decrease in long term debt	250,000	250,000
	<u>2,824,742</u>	<u>2,617,132</u>
INCREASE IN WORKING CAPITAL	1,561,508	1,434,823
WORKING CAPITAL, BEGINNING OF YEAR	9,491,152	8,056,329
WORKING CAPITAL, END OF YEAR	<u>\$11,052,660</u>	<u>\$ 9,491,152</u>

NOTE 3: CAPITAL (cont'd.)

During the year the company advanced \$28,770 to the trustee repayable no later than 1981, which was applied to purchase 3,500 Class B shares from the treasury of the company at \$8.22 per share. This accounts for the change in the paid-up capital from \$282,120 at December 31, 1975 to \$310,890 at December 31, 1976.

NOTE 4: DIRECTORS' AND OFFICERS' REMUNERATION

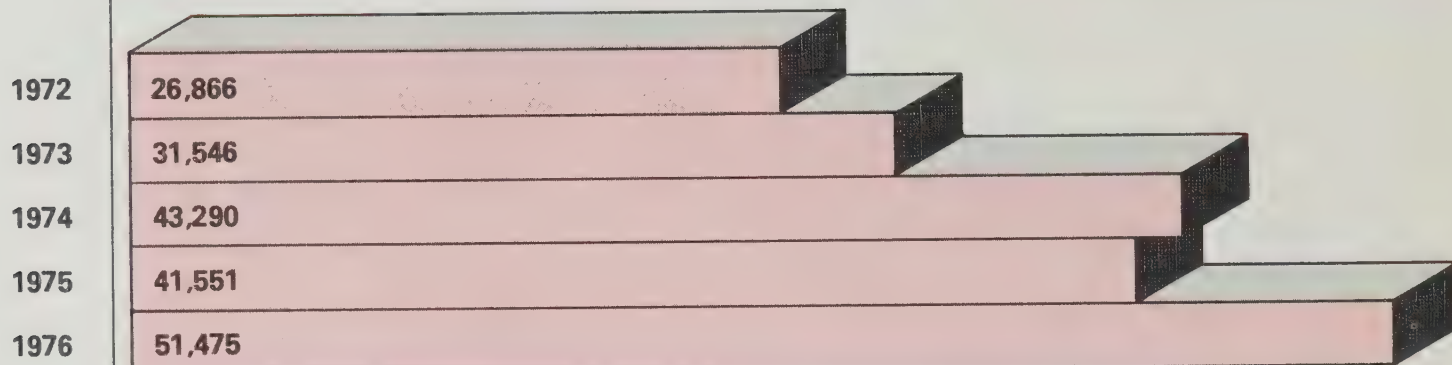
The aggregate direct remuneration paid or payable by the company to the Directors and Senior Officers as defined by the Business Corporations Act was \$416,065 for 11 people for the year ending December 31, 1976.

NOTE 5: ANTI-INFLATION LEGISLATION

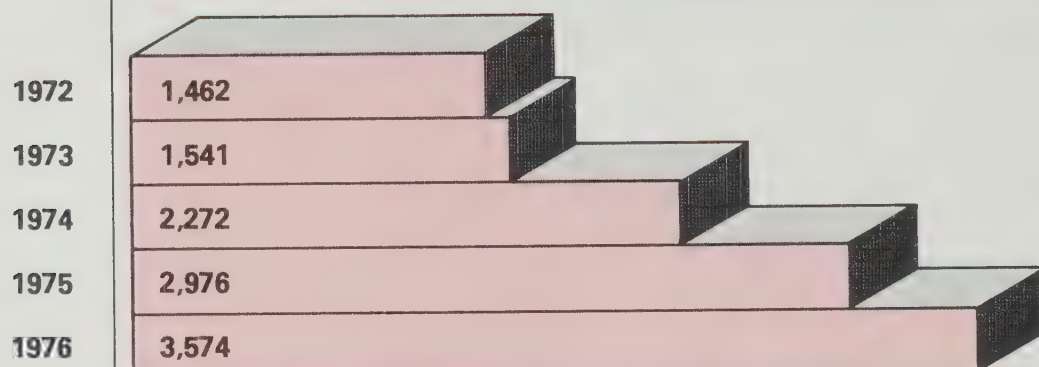
The company is subject to the Federal Anti-Inflation legislation which imposes restrictions on prices, profits, compensation and dividends. Management is of the opinion that the company has complied with all phases of the requirements and regulations of the legislation since October 14, 1975.

NET SALES (in thousands of dollars)

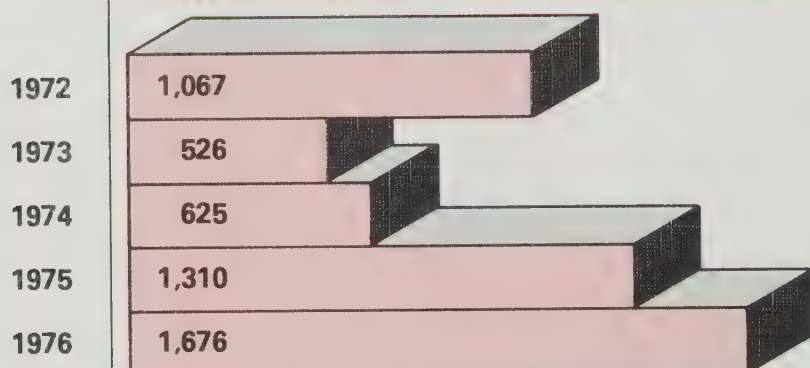
5 YEAR COMPARISONS



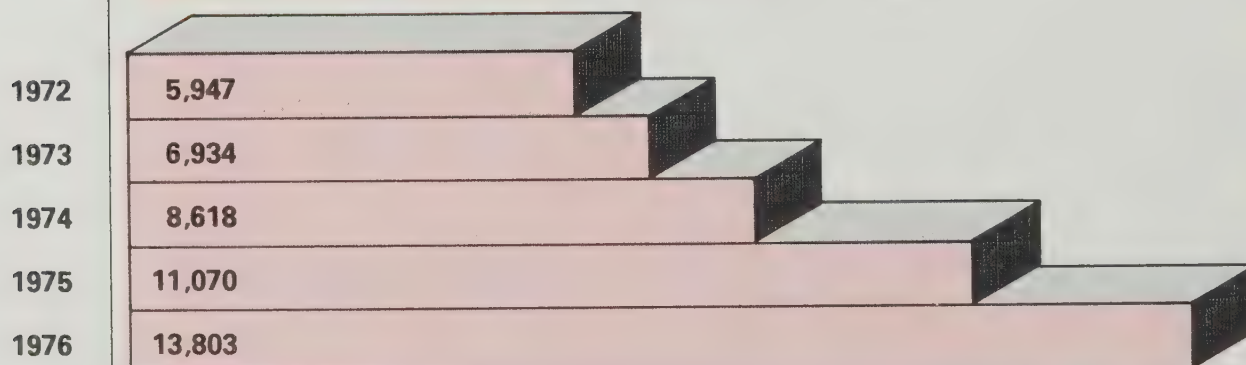
NET INCOME AFTER TAXES (in thousands of dollars)



NEW INVESTMENT IN FIXED ASSETS AND TOOLAGE (in thousands of dollars)



SHAREHOLDERS' EQUITY (in thousands of dollars)





TEN YEAR SUMMARY OF FINANCIAL HIGHLIGHTS

OPERATIONS:

(in thousands of dollars)

	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>
Net Sales	\$51,475	\$41,551	\$43,290	\$31,546	\$26,866	\$22,798	\$22,444	\$18,855	\$15,198	\$11,688
Income before income taxes	6,195	5,181	3,931	2,650	2,750	2,262	1,755	1,639	1,260	913
Income taxes	2,621	2,205	1,659	1,109	1,288	1,142	918	853	656	466
Net income after taxes	3,574	2,976	2,272	1,541	1,462	1,120	837	786	604	447

BALANCE SHEET:

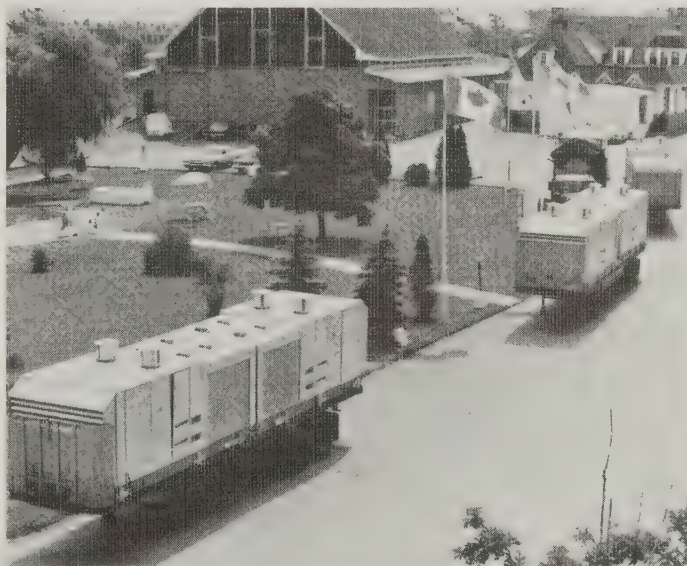
(in thousands of dollars)

Working capital	11,053	9,491	8,056	6,589	5,769	3,821	3,256	3,334	2,891	2,514
Fixed assets										
Net after depreciation ...	4,190	3,209	2,628	2,642	2,532	1,944	1,958	1,339	1,232	1,171
Yearly depreciation provided	624	691	639	416	479	365	362	336	259	179
Annual investment										
Fixed assets and toolage	1,676	1,310	625	526	1,067	352	980	443	320	166
Shareholders' equity	13,803	11,070	8,618	6,934	5,947	4,899	4,085	3,536	2,971	2,533

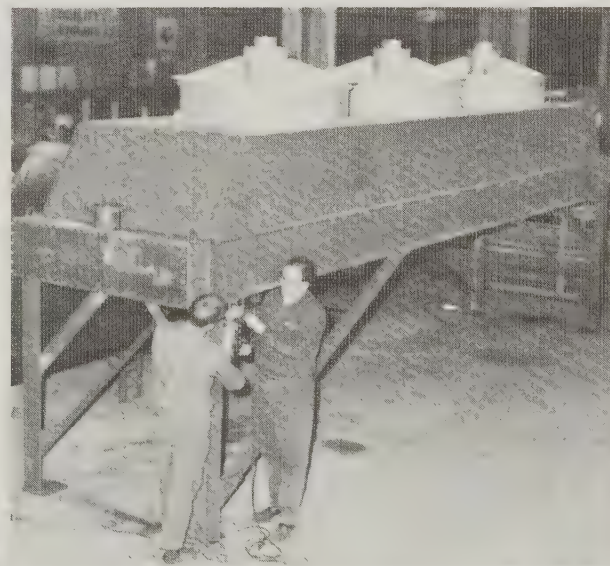
* EARNINGS PER SHARE

Class B and/or Class C	\$1.775	\$1.509	\$1.156	\$.784	\$.744	\$.570	\$.426	\$.400	\$.308	\$.228
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* Adjusted to reflect reclassification of share capital in 1967, the three for one subdivision of shares on May 1, 1969, and capital reorganization of August 23, 1972.



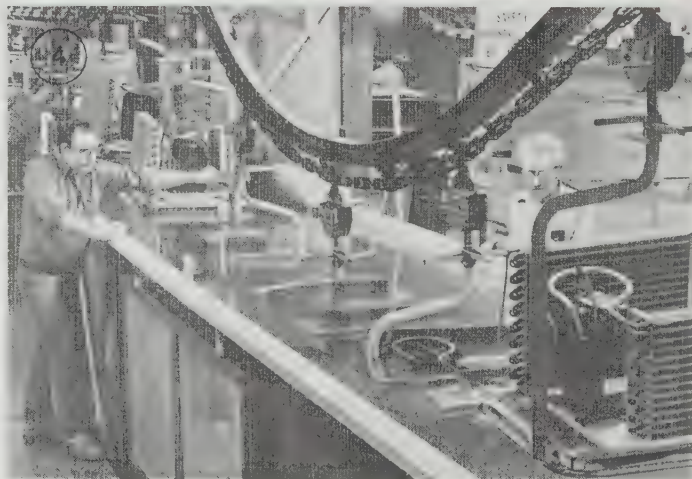
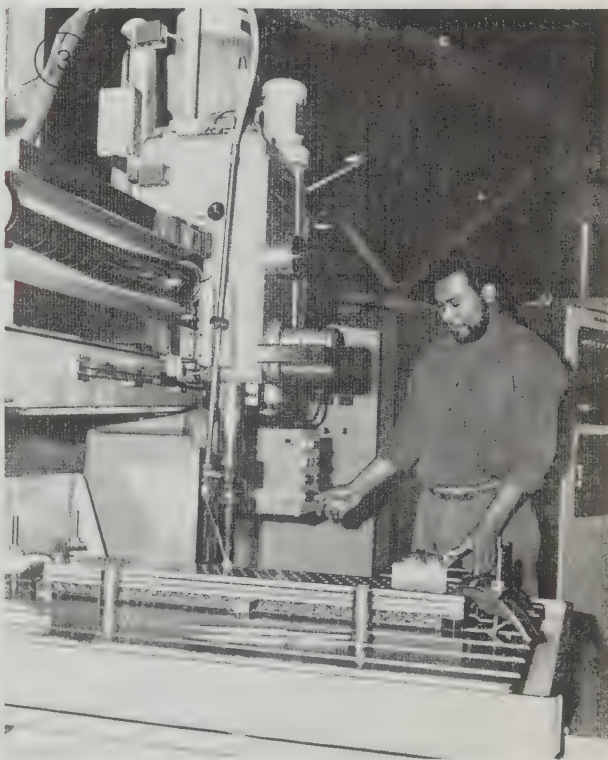
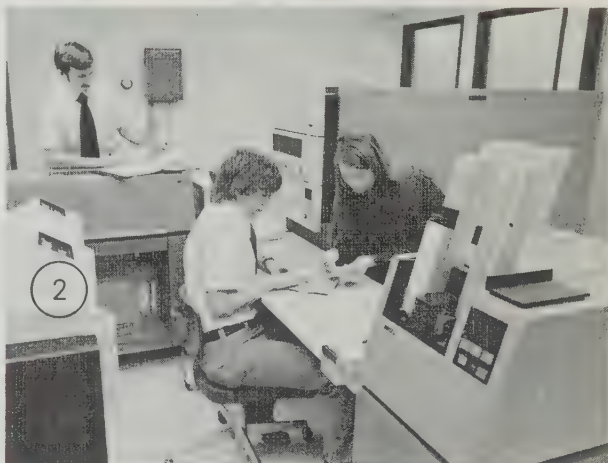
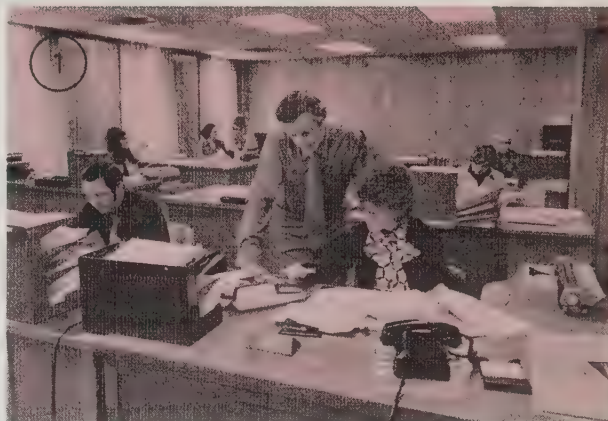
Built in our Brantford Plant, these rooftop heating and air conditioning units await installation at a large supermarket near Montreal.



A Unifin glycol cooler being prepared for shipment to a transmission station in New Brunswick.

KEEPRITE PEOPLE AT WORK

- ① The Order Department in our Brantford Division is the hub of a coast-to-coast sales operation. Here, incoming orders are processed and followed until they are shipped to their destination.
- ② Our computer facility in Brantford Head Office is multi-purpose, doing financial as well as technical work. When linked with our terminals in London, it will serve Unifin Division too.
- ③ Jim Harewood, using a modern tape-controlled drill in our London Plant, can drill stainless steel plates up to two inches thick. The size, position and number of holes to be drilled are all programmed on a magnetic tape.
- ④ Ken Cullinan (left) and Joe Lombardi (right) work at a test station on one of the room air conditioner lines in Brantford. Every unit has to be leak-tested under water before it is charged with refrigerant.
- ⑤ Ken Rotchill and Grant Hyde are setting up one of our 400-ton presses in Brantford to perform four operations on an air conditioner casing simultaneously.





KEEPRITE PEOPLE AT PLAY

- 1 Among the KeepRite people we have pilots, golf and tennis players, swimmers, skiers, skaters and bowlers. We also have a baseball team at our Unifin Division. The team was a member of the London Industrial Fastball League.
- 2 Santa Claus visits KeepRite's Kiddies Christmas Party every year. He brings them toys, candy and lots of games and fun.
- 3 Verona Heard received her ten year service watch from President F. S. Brown during the annual Christmas Party in London. She is Payroll Supervisor at Unifin Division.
- 4 Competition is keen in the bowling circles. KeepRite's team in Brantford belongs to the "Good Fellowship Bowling League" where they won the "B" division League Championship in 1976.
- 5 Americo Antonucci (second from left) and his friends surprised their fellow workers in our Brantford Plant by serving a huge 4 ft. x 8 ft. pizza during lunch break on the occasion of his retirement last September.





KEEPRITE PRODUCTS LIMITED 1976 ANNUAL REPORT

KeepRite, an all Canadian company, is a leading manufacturer of refrigeration, air conditioning, heat transfer and heat recovery products. It has an outstanding record of profitable growth during nearly 32 years of operation. Its products are marketed extensively in North America and are exported to many countries throughout the world.

The Annual Meeting of Shareholders
will be held in Brantford, Ontario,
at 10:30 a.m., Wednesday, May 18, 1977.



interim
report
to
shareholders

FOR THE SIX MONTHS ENDED
JUNE 30th
1976

KEEPRITE PRODUCTS LIMITED

KEEPRITE PRODUCTS LIMITED

TO OUR SHAREHOLDERS:

Net sales for the six month period ending June 30, 1976 increased 18.2% over the same period last year. Net income for the period was \$1,468,519 compared to \$1,138,082 for the first half of 1975, representing basic earnings per share of 73.0c compared with 57.9c last year.

A favourable product mix, an uninterrupted flow of materials and components from suppliers, plus a good contribution from past expenditures for improved equipment, toolage, and methods have all helped to make this result possible. We are hopeful that such improvement will continue for the balance of 1976.

The Board of Directors have approved, after special consideration, the proposal of management to build a 70,000 sq. ft. addition to the manufacturing plant at Brantford, to include the installation of an additional complete modern painting and finishing department together with the latest type of conveyORIZED assembly and testing facilities. The estimated cost of buildings and equipment will be in the neighbourhood of \$1,550,000.

The much more favourable manufacturing cost conditions which exist in the United States today, plus the special inducements which continue to be offered to us by certain States, made our decision to locate this new manufacturing facility in Canada a lengthy and difficult one. It is recognized if the disparity of manufacturing costs between Canada and United States continues to widen, however, we shall have little choice but to follow the action of many other Canadian companies and locate our future expansion in the United States.

At a meeting on August 10, 1976, the Board of Directors declared the third quarterly dividend of 10 cents per share on Class B shares and 8.5 cents (tax deferred) on Class C shares. Both dividends are to be paid on September 30, 1976, to shareholders of record September 15, 1976.

August 18, 1976.

J. GORDON McMILLEN,
Chairman, Chief Executive Officer.

F. STEWART BROWN,
President, Chief Operating Officer.

comparative interim financial statement

(unaudited — subject to year-end adjustment)

statement of income

	Six months ended June 30	
	1976	1975
SALES	\$28,914,063.	\$24,461,880.
Cost of sales, selling, administrative and other expenses exclusive of items listed below	25,816,326.	21,915,283.
Depreciation	436,232.	460,238.
Interest on long term debt	96,418.	103,425.
	<u>\$26,348,976.</u>	<u>\$22,478,946.</u>
Net income for period before taxes on income	2,565,087.	1,982,934.
Taxes on income	1,096,568.	844,852.
NET INCOME FOR PERIOD	<u>\$ 1,468,519.</u>	<u>\$ 1,138,082.</u>
Period basic earnings per share — Net — Class B or C...	73.0c	57.9c

statement of source and application of funds

	Six months ended June 30	
	1976	1975
SOURCE OF FUNDS:		
Net income from operations	\$ 1,468,519.	\$ 1,138,082.
Depreciation charged to operations	436,232.	460,238.
Total funds provided from operations	<u>1,904,751.</u>	<u>1,598,320.</u>
Increase in deferred income tax	16,350.	3,300.
Payment from trustee re share purchase plan	10,416.	—
	<u>\$ 1,931,517.</u>	<u>\$ 1,601,620.</u>
APPLICATION OF FUNDS:		
Land and building purchases	\$ 1,643.	\$ 45,449.
Machinery and equipment purchased	136,397.	354,150.
Dividends paid	373,630.	364,742.
Taxes paid on undistributed income	28,800.	28,200.
	<u>\$ 540,470.</u>	<u>\$ 792,541.</u>
Funds retained as increased working capital	<u>\$ 1,391,047.</u>	<u>\$ 809,079.</u>

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